

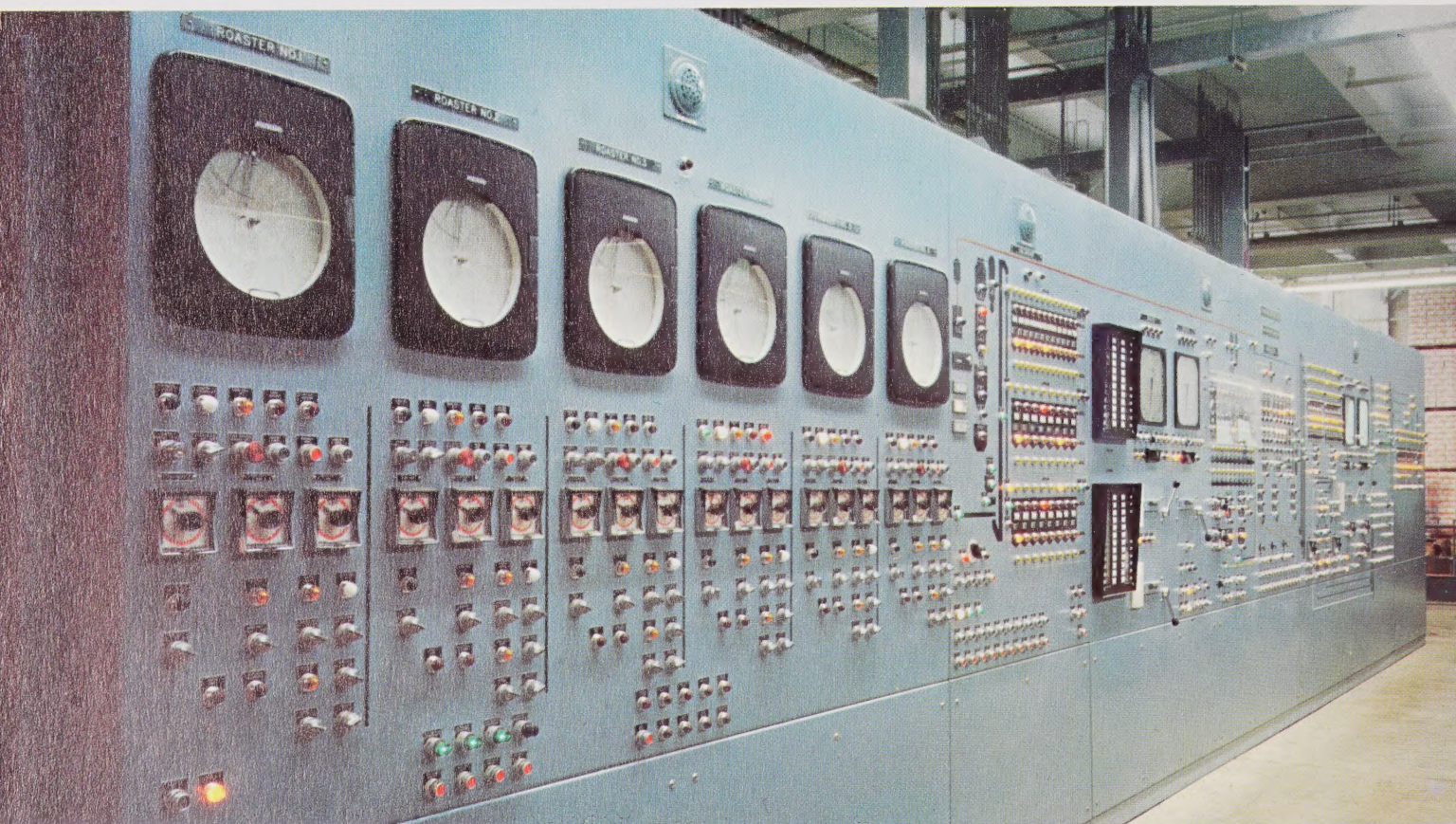
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ANNUAL REPORT 1965



**ROBERT MORSE** CORPORATION LIMITED





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Pictured above and on the cover is the Howe Richardson control panel installed in the new plant of Wilkins Coffee Company in Washington, D.C. This panel, which is 40 feet long, is interconnected with an IBM computer and controls, through programming, the automatic handling, sorting, roasting, grinding and storing of coffee beans.



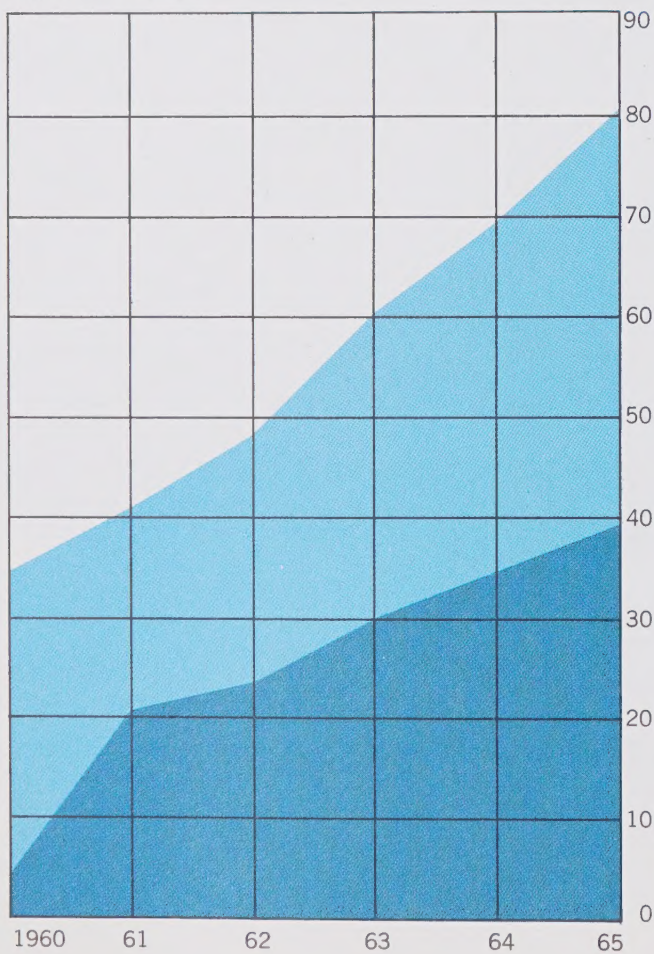
**ROBERT MORSE CORPORATION LIMITED**  
**AND SUBSIDIARY COMPANIES**

**SUMMARY**

	1965	1964	1963
Orders booked . . . . .	\$86,904,000	\$74,732,000	\$62,769,000
Net sales . . . . .	80,359,067	69,422,158	60,114,041
Backlog . . . . .	25,115,000	18,570,000	13,260,000
Income before taxes . . . . .	2,558,454	1,618,555	1,138,434
Income taxes . . . . .	1,011,224	336,240	136,452
Net income . . . . .	1,547,230	1,282,315	1,001,982
Earnings per Class A share . . . . .	2.05	1.73	1.37
Earnings per Class B share . . . . .	1.95	1.63	1.27
Depreciation . . . . .	602,399	595,582	539,063
Working capital . . . . .	11,724,358	6,097,988	6,292,877
Total assets . . . . .	41,004,619	36,511,490	30,376,935
Shareholders' equity . . . . .	8,999,350	8,061,540	7,330,111

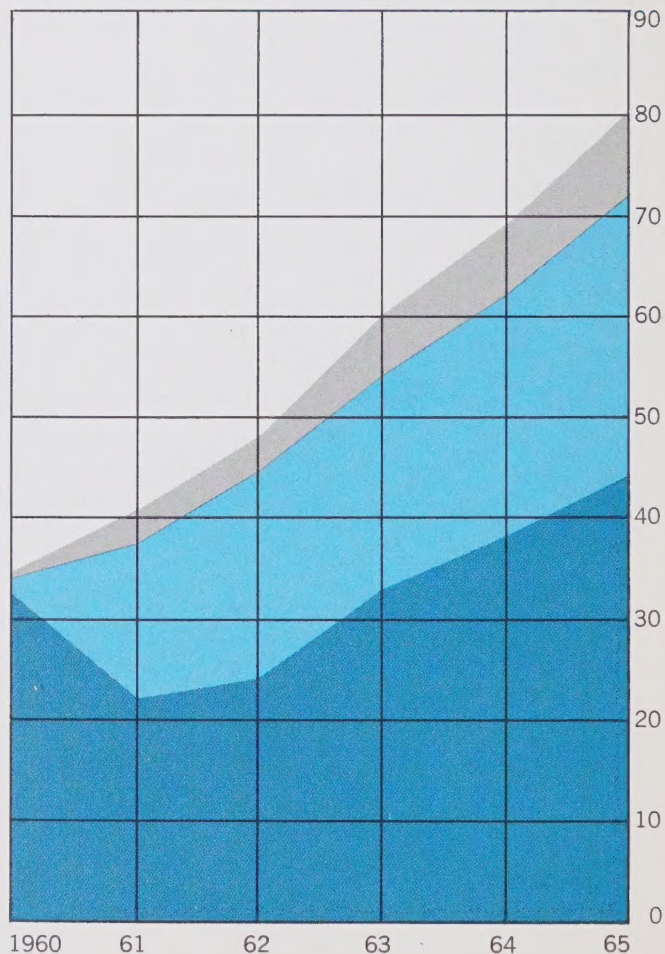
**ROBERT MORSE CORPORATION LIMITED**  
AND SUBSIDIARY COMPANIES

**NET SALES BY CLASS OF BUSINESS**  
(Millions of Dollars)



Manufactured Products  
Distributed Products

**NET SALES BY PRINCIPAL MARKETS**  
(Millions of Dollars)



Canada  
United States  
Foreign



## TO OUR SHAREHOLDERS:

### EARNINGS AND DIVIDENDS

During 1965 the Company made solid progress in many areas, and we enter 1966 in an atmosphere of continuing growth and development according to our long-range plan.

New records were achieved in 1965 operating profit, profit before tax, and net profit. Consolidated net profit was \$1,547,000, compared to \$1,282,000 in the previous year, an increase of 21%. This represents \$2.05 per Class A and \$1.95 per Class B share, compared to \$1.73 and \$1.63, respectively, in 1964. Cash flow (net profit plus depreciation) was \$2,150,000 vs. \$1,878,000.

Net profit before taxes increased by 58% from \$1,619,000 to \$2,558,000. Consolidated income taxes rose from \$336,000 (a 21% rate) in 1964 to \$1,011,000 (a 40% rate) in 1965. The improvement accomplished in operating profit was sufficiently great to absorb the sharp increase in income taxes and still provide the 21% gain in after-tax net profit. In 1966 the Company's consolidated tax rate should advance further, but less sharply as it approaches the maximum of 49% which will ultimately apply under present tax rates in the countries in which we operate.

Quarterly dividends of  $17\frac{1}{2}\phi$  and  $15\phi$  were declared on the Class A and Class B shares, respectively, during the first three quarters of 1965. On December 1, these payments were increased to  $20\phi$  and  $17\frac{1}{2}\phi$ , respectively, placing the Class A shares on an annual rate of  $80\phi$  and the Class B shares on an annual rate of  $70\phi$ . These dividends represent, on an annual basis, approximately \$600,000 or 39% of 1965 net earnings.

### SALES

Consolidated sales were \$80,359,000, up 16% from the \$69,422,000 in 1964, and a record for the fifth consecutive year. Every major division and subsidiary contributed to the sales increase, despite the discontinuance of certain unprofitable product models in our manufacturing subsidiaries. The healthy nature of the product mix contributed to the 58% gain in pre-tax profit on the 16% sales increase, although improved efficiency and higher utilization of facilities were also major factors.

Orders booked in 1965 were \$86,904,000, compared to \$74,732,000 in 1964, an increase of 16%, and a record for the fifth consecutive year. Year-end backlog was \$25,115,000, as compared to \$18,570,000 a year earlier. Orders booked in the early weeks of 1966 are ahead of 1965 in most divisions.

In 1959 the Company's sales were less than \$20 million, excluding lines that were later liquidated as part of the re-organization program. Thus, 1965 sales of \$80 million include \$60 million of increase over the 1959 base level, with acquisitions made during 1960-62 playing a major role. In the past three years no significant acquisitions have been made and sales have grown by approximately 67%.

The charts on Pages 10 and 11 trace the sales growth by major product category over the past six years. The fact that the Company has become heavily engaged in the manufacture of its own products in the United States and abroad has not detracted from the growth of its distribution business in Canada. In fact, our Canadian distribution facilities have been improved and expanded, and the organization arranged for specialized manage-



ment of each major product category. This has resulted in the expansion of sales volume in existing lines and the acquisition of new lines for distribution. The future outlook is for continued growth both in Canadian distributor business and products of our own manufacture.

### **CANADIAN OPERATIONS**

The Rudel Industrial Division completed another record year of sales and maintained its position as the largest supplier of machine tools and industrial equipment in Canada. Several new lines were added during the year, and demand for automatic tape controlled machine tools continues to increase.

The Materials Handling and Logging Equipment Division continued its sharp growth. During 1965 the Volvo front-end loader was added to the product line, and the exclusive distributorship for Canada and northeastern United States was obtained for the Sund Tree Processing System, which automates the delimbing, topping and slashing of trees.

Both of the above divisions moved their Montreal activities into a modern building last year, which provides many advantages in service and efficiency compared to the old multi-story downtown building. Newly constructed branches were also occupied at Winnipeg, Calgary and Regina.

The Scale Division maintained its position as the leading industrial weighing organization in Canada, supplying principally Howe Richardson and Morse-tronic products of our own manufacture, and also Avery scales from England. Demand continues to increase for Morsetronic batching control systems, which are produced in our Montreal plant.

Prior to 1958 control of this Company and of Fairbanks Morse in the United States was exercised by the Morse family, and this Company was exclusive Canadian distributor for Fairbanks Morse products. Since 1958, when control of this Company was brought to Canada, and control of Fairbanks Morse changed hands, there has been a step by step disassociation between the two companies. Although this Company competes directly with Fairbanks Morse throughout the world through its subsidiaries, Howe Richardson Scale Company and Johnston Pump Company, it

continues to supply certain Fairbanks Morse diesel engines for marine propulsion applications in Canada.

During 1965 an agreement was entered into with Fairbanks Morse covering the extension of this diesel engine sales arrangement, which includes an option to purchase in 1967 the major parts of the marine activity from this Company. If this option is not exercised, the sales agreement will extend another five years. As the Company has grown in other areas, the sales and profit contributions of this marine business have become less important to the overall picture. Thus, if the option is exercised in 1967, it should not cause any interruption to our overall trend of improvement in sales and earnings.

The pump and generating set businesses of the Engineering Sales Division are not affected by this agreement and continue their healthy growth.

### **HOWE RICHARDSON SCALE COMPANY**

During 1965, sales and profit contribution of Howe Richardson Scale Company increased materially, and a number of new products were introduced. The Uni-Pak, an integrated weighing, filling, conveying and closing system for paper and plastic bags, was designed and placed in production at the Clifton plant. A binary dropweight system for use on truck and railroad scales produced at the Rutland plant has been enthusiastically received throughout the United States. A newly designed line of bench and floor portable scales was placed in production at the year-end.

A Packaging Division was created to further exploit this segment of the Company's business. New sales and service outlets were opened in four U.S. cities and existing outlets were moved into improved facilities in four other locations. Test programs in one region to improve and enlarge the Company's service operations proved highly successful and are being applied to other regions.

### **FOREIGN OPERATIONS**

The Company's foreign subsidiaries as a group performed better than ever before during 1965, with Howe Richardson of England contributing



the greatest single improvement, followed by the smaller French operation. The earnings of the Mexican operation were somewhat lower, and the Australian company suffered a loss, mainly as the result of consolidating the operations of two separate plants into one new facility. The South African company, though quite small, is now operating at a profit and has produced systems for glass batching, animal feed plants, and other applications.

## JOHNSTON PUMP COMPANY

New records in sales and earnings were again set during 1965 by Johnston Pump Company, which enters the new year with the largest backlog in its history and further gains projected for 1966.

Part of the Johnston plant site at Pasadena, California is being expropriated by the State because of highway construction, making it uneconomic to continue operations at the present location. Plans are therefore under way to design and construct a new plant on a site presently being acquired in the same general area. Proceeds from disposition of the present property should defray a substantial portion of the cost of the new facility.

It has been estimated that the demand for water in the United States will increase from approximately 340 billion gallons per day in 1965 to 600 billion gallons in 1980. Huge spending for pumps and other equipment will be necessary to keep pace with this demand. Thus the markets served by Johnston will continue to grow for many years.

## FINANCIAL

The Company's shares continue to be held principally in Canada, with more than 3,000 registered shareholders throughout the country. Approximately 94% of the Class A shares and 99% of the Class B shares are held in Canada. We welcome the addition of a major mutual fund to our Class A shareholder list.

Consolidated working capital was increased by 92% during the year, from \$6,098,000 to \$11,724,000. The major factor in this increase was the placement of two mortgage loans on the fixed assets of the Rutland, Vermont plant of our

subsidiary, Howe Richardson Scale Company. One loan was in the amount of U.S. \$2,685,000, for a 25-year period, and the other for U.S. \$2,000,000, for a 10-year period. Both loans were insured by the State of Vermont, and the total interest cost to the Company amounts to 5.15% per annum.

The Company's growth over the past six years has been financed almost entirely by debt. While this method of financing has maintained high leverage on the earning power of the Class A and B shares, it has at times placed a strain on working capital. As previously reported, the Company is giving consideration to an issue in Canada of between \$3 and \$4 million of Preferred Shares, which would bring our working capital and equity more nearly in line with the needs of our expanding operations.

## PERSONNEL

We record with sorrow the death in July of Mr. Fred M. Fairman, Treasurer, following forty-five years of faithful and effective service to the Company.

Mr. Russell J. Pederson, Vice President—Comptroller of the parent company, was appointed Vice President—Finance of Howe Richardson Scale Company, and Mr. G. S. Carpenter was appointed Comptroller of the parent company. Mr. Fred J. Benoit was named General Manager of the Canadian Scale Division.

## OUTLOOK

The Company's participation in growth markets in the United States, Canada and abroad is steadily increasing. We foresee a pattern of continued gains in sales and earnings during 1966 and the years ahead.

We are indeed grateful to our many fine employees whose specialized knowledge and fine support have been indispensable to the Company's progress.

*On behalf of the Board of Directors,*



*President and General Manager*

**ROBERT MORSE CORPORATION LIMITED**  
AND SUBSIDIARY COMPANIES

**STATEMENT OF CONSOLIDATED INCOME**  
FOR THE YEAR ENDED DECEMBER 31 1965

	1965	1964
Net sales . . . . .	<u>\$80,359,067</u>	<u>\$69,422,158</u>
Income from operations for the year, before the undernoted items . . . . .	<u>\$ 4,453,211</u>	<u>\$ 3,328,839</u>
Depreciation . . . . .	602,399	595,582
Directors' fees and remuneration of salaried directors . . . . .	296,700	229,209
Minority interest . . . . .	( 34,338)	9,426
	<u>864,761</u>	<u>834,217</u>
Income before interest and taxes . . . . .	3,588,450	2,494,622
Interest expense (including \$311,634 on long-term debt) . . . . .	<u>1,029,996</u>	<u>876,067</u>
Income before taxes . . . . .	2,558,454	1,618,555
Income taxes (Note 3) . . . . .	<u>1,011,224</u>	<u>336,240</u>
Income for the year . . . . .	<u>\$ 1,547,230</u>	<u>\$ 1,282,315</u>

**STATEMENT OF CONSOLIDATED RETAINED EARNINGS**

Balance at beginning of year . . . . .	\$ 6,035,372	\$ 5,519,702
Income for the year . . . . .	<u>1,547,230</u>	<u>1,282,315</u>
	7,582,602	6,802,017
Premium on shares of a subsidiary, written off . . . . .	<u>212,854</u>	<u>142,709</u>
	<u>7,369,748</u>	<u>6,659,308</u>
Dividends:		
Class A shares — 72½¢ (1964 - 70¢ plus 52½¢ arrears) . . . . .	374,944	623,936
Class B shares — 62½¢ (1964 - Nil) . . . . .	<u>156,372</u>	<u>—</u>
	<u>531,316</u>	<u>623,936</u>
Balance at end of year . . . . .	<u>\$ 6,838,432</u>	<u>\$ 6,035,372</u>

(The accompanying Notes to Financial Statements  
are an integral part hereof)



**ROBERT MORSE CORPORATION LIMITED**  
AND SUBSIDIARY COMPANIES

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**  
DECEMBER 31 1965

	1965	1964
<b>CURRENT ASSETS:</b>		
Cash . . . . .	\$ 1,519,617	\$ 642,164
Accounts and notes receivable . . . . .	16,816,596	16,519,527
Income taxes recoverable . . . . .	—	62,922
Inventories (Note 2) . . . . .	17,074,528	13,613,490
Prepaid expenses . . . . .	530,852	477,930
	<u>35,941,593</u>	<u>31,316,033</u>
<b>CURRENT LIABILITIES:</b>		
Bank indebtedness (secured \$813,747) . . . . .	8,008,483	11,002,358
Notes payable . . . . .	2,738,299	1,689,457
Trade and other accounts payable . . . . .	10,699,059	10,838,401
Income and other taxes (Note 3) . . . . .	974,491	542,352
Instalments on long-term debt (Note 4) . . . . .	586,400	736,027
Customers' deposits on contracts . . . . .	1,210,503	409,450
	<u>24,217,235</u>	<u>25,218,045</u>
<b>WORKING CAPITAL</b> . . . . .	<u>11,724,358</u>	<u>6,097,988</u>
<b>FIXED ASSETS, at cost:</b>		
Land . . . . .	449,241	444,052
Buildings . . . . .	1,424,817	1,374,007
Plant and equipment . . . . .	5,667,682	5,148,510
	<u>7,541,740</u>	<u>6,966,569</u>
Less: Accumulated depreciation . . . . .	3,393,799	2,883,221
	<u>4,147,941</u>	<u>4,083,348</u>
<b>PREMIUM ON SHARES OF SUBSIDIARIES</b> (at cost, less amounts written off) . . . . .	915,085	1,112,109
	<u>16,787,384</u>	<u>11,293,445</u>
<b>LONG-TERM DEBT</b> (Note 4) . . . . .	7,555,715	2,990,190
	<u>9,231,669</u>	<u>8,303,255</u>
<b>MINORITY INTEREST IN SUBSIDIARIES</b> . . . . .	232,319	241,715
<b>SHAREHOLDERS' EQUITY</b> . . . . .	<u>\$ 8,999,350</u>	<u>\$ 8,061,540</u>
<b>REPRESENTED BY:</b>		
Capital stock (Note 5) . . . . .	\$ 2,160,918	\$ 2,026,168
Retained earnings (statement attached) . . . . .	6,838,432	6,035,372
	<u>\$ 8,999,350</u>	<u>\$ 8,061,540</u>

Signed on behalf of the Board:  
R. H. MORSE III, *Director*  
J. E. McQUILKIN, *Director*

(The accompanying Notes to Financial Statements  
are an integral part hereof)



**ROBERT MORSE CORPORATION LIMITED**  
**AND SUBSIDIARY COMPANIES**

**NOTES TO CONSOLIDATED FINANCIAL STATEMENTS**  
**DECEMBER 31 1965**

**1 BASIS OF CONSOLIDATION:**

The consolidated financial statements include the accounts of Robert Morse Corporation Limited and those of all of its subsidiary companies.

Accounts of subsidiaries expressed in currencies other than Canadian have been translated into Canadian dollars at rates of exchange current at December 31 1965 except (a) fixed assets, long-term liabilities and depreciation provision, at rates prevailing at dates of acquisition or issue and (b) income and expenses (other than depreciation) at the average rates of exchange in effect during the year.

**2 INVENTORIES:**

The inventories are valued at the lower of cost or market and comprise:

	1965	1964
Finished products, manufactured or purchased . . . . .	\$11,005,572	\$ 8,382,467
Work-in-process . . . . .	3,326,507	2,618,801
Raw materials and supplies . . . . .	<u>2,742,449</u>	<u>2,612,222</u>
	<u>\$17,074,528</u>	<u>\$13,613,490</u>

**3 INCOME TAXES:**

Income taxes for the year have been determined after taking into account prior years' losses for tax purposes of approximately \$600,000.



#### 4 LONG-TERM DEBT:

	1965	1964
Note* payable in semiannual instalments of US\$91,386 to 1990 (effective interest rate 5.15%) . . . . .	\$ 2,888,003	\$ —
Note* payable in semiannual instalments of US\$126,183 to 1975 (effective interest rate 5.15%) . . . . .	2,151,140	—
6% Subordinated Debentures* US\$1,500,000 due in 1971 . . . . .	1,570,305	1,570,305
6% Mortgage loan* payable monthly to 1969 . . . . .	548,357	665,979
6% Subordinated Serial Notes* payable US\$68,893 annually to 1972 . .	434,669	506,705
Other term obligations, payable over periods varying from two to eight years	549,641	983,228
	<u>8,142,115</u>	<u>3,726,217</u>
Less: Amounts due within one year, included with current liabilities . . . . .	<u>586,400</u>	<u>736,027</u>
	<u>\$ 7,555,715</u>	<u>\$ 2,990,190</u>

\*Debentures, loans and notes secured by collateral mortgages or trust deed against fixed assets.

#### 5 CAPITAL STOCK:

	CLASS A SHARES	CLASS B SHARES
Shares without nominal or par value —		
Shares authorized . . . . .	<u>4,000,000</u>	<u>2,000,000</u>
Shares issued . . . . .	<u>525,082</u>	<u>252,335</u>
Amount at which issued . . . . .	<u>\$2,160,918</u>	

In 1965, pursuant to options granted in prior years, 10,400 Class A shares and 2,700 Class B shares were issued to optionees for an aggregate cash consideration of \$134,750. Following such issue, options to purchase capital stock of the Company, outstanding at December 31 1965 were (a) to a director and officer for 1,800 units at \$30 per unit (each unit comprising two Class A shares and one Class B share) exercisable to August 31 1969 and (b) to two officers of a subsidiary each for 2,500 Class A shares at US\$10 per share exercisable to April 30 1967.

The Class A shares are entitled to a cumulative annual dividend of 70¢ per share and to participate equally in further amounts per share after payment of a non-cumulative annual dividend of 60¢ per share on Class B shares.

Shares have been reserved with respect to a warrant issued in January 1962, as part consideration for the purchase of certain net assets, exercisable to December 31 1971 for the purchase of up to 150,000 Class A shares of stock of the Company at a price of US\$10 per share. The shares may be paid for in cash or by the surrender of an equivalent amount of 6% subordinated debentures outstanding.

#### 6 COMMITMENTS AND CONTINGENCIES:

- For conditional sales contracts discounted \$3,089,000 and guarantees \$175,000.
- For lease rentals aggregating \$460,000 annually, the major portion being for periods extending from three to twenty years.
- For capital expenditures \$385,000.



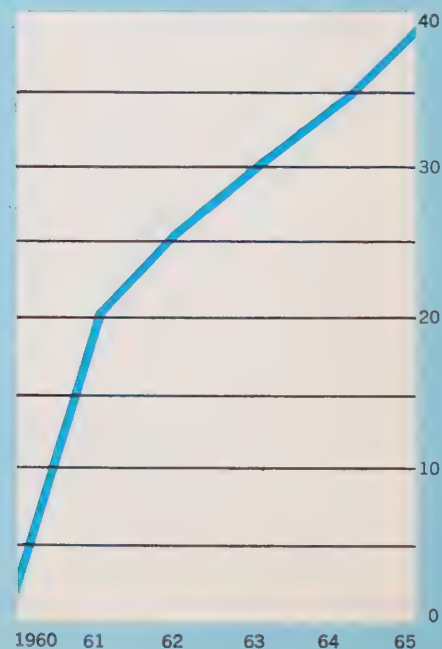
**ROBERT MORSE CORPORATION LIMITED**  
AND SUBSIDIARY COMPANIES

**STATEMENT OF SOURCE AND APPLICATION OF FUNDS**  
FOR THE YEAR ENDED DECEMBER 31 1965

Consolidated working capital at beginning of year . . . . .			\$ 6,097,988
Funds provided —			
From operations:			
Income for the year . . . . .	\$1,547,230		
Depreciation . . . . .	602,399	2,149,629	
Issue of capital stock . . . . .		134,750	
Long-term loans . . . . .		5,119,059	
		<u>13,501,426</u>	
Funds applied —			
Additions to fixed assets, less proceeds of disposals . . . . .	666,992		
Reduction of long-term debt . . . . .	553,534		
Dividends paid . . . . .	531,316		
Other . . . . .	25,226	1,777,068	
Consolidated working capital at end of year . . . . .		<u>\$11,724,358</u>	

**SALES  
BY  
PRODUCT  
GROUP**  
(Millions of Dollars)

**MANUFACTURED SCALES,  
PROCESS CONTROL EQUIPMENT  
AND PUMPS**





## AUDITORS' REPORT

TO THE SHAREHOLDERS OF ROBERT MORSE CORPORATION LIMITED:

We have examined the consolidated statement of financial position of Robert Morse Corporation Limited and subsidiary companies as at December 31, 1965 and the statements of consolidated income and consolidated retained earnings for the year ended on that date. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion, the accompanying consolidated statement of financial position and statements of consolidated income and consolidated retained earnings present fairly the financial position of the

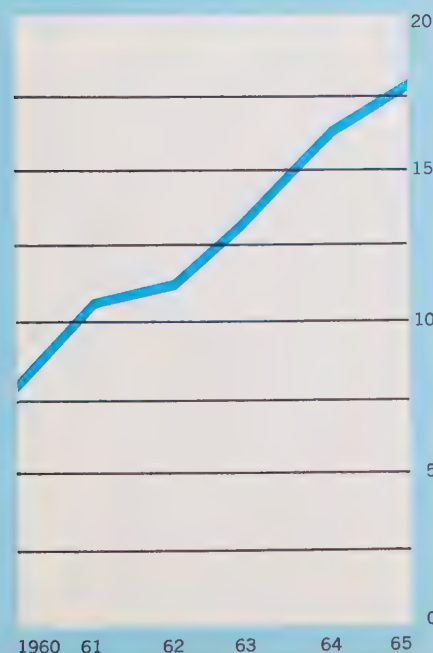
companies as at December 31, 1965 and the results of their combined operations for the year ended on that date, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Our examination also included the accompanying statement of source and application of funds for the year ended December 31, 1965 and, in our opinion, that statement presents fairly the changes in working capital for the year.

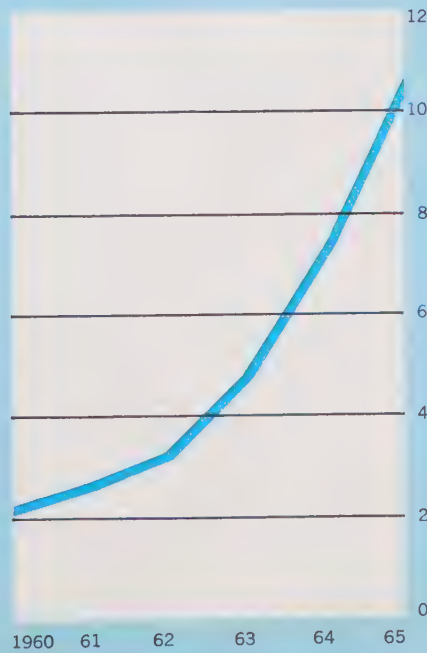
PRICE WATERHOUSE & CO.  
*Chartered Accountants.*

Montreal, February 21, 1966

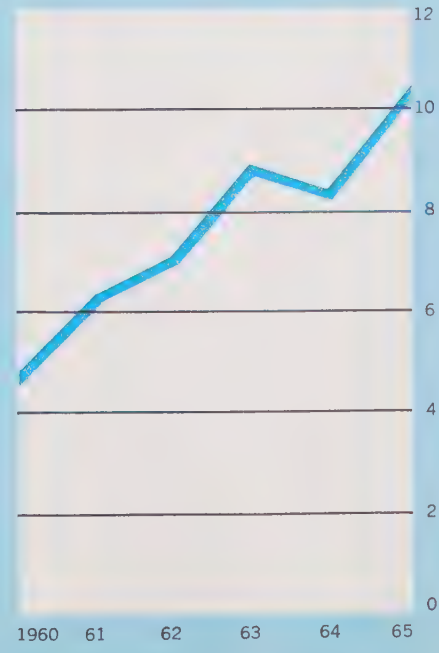
**MACHINE TOOLS, INDUSTRIAL  
SUPPLIES AND EQUIPMENT**



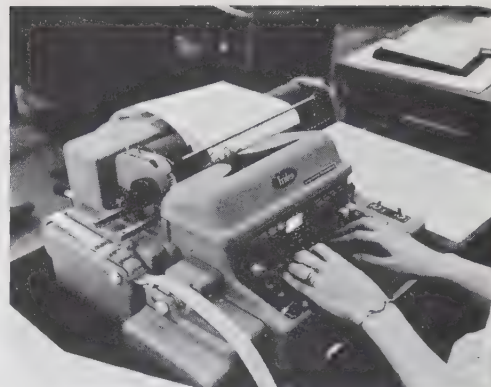
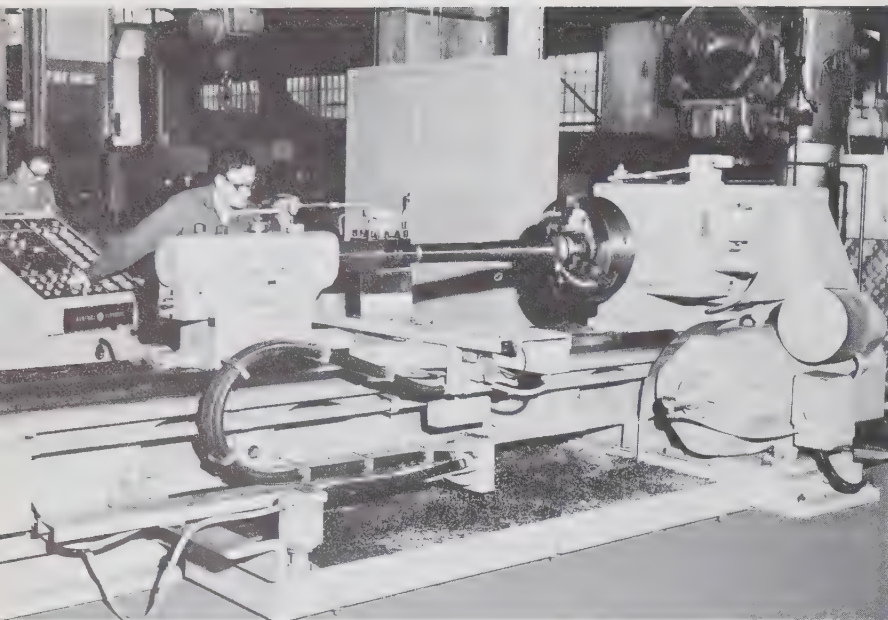
**MATERIALS HANDLING,  
LOGGING AND  
CONSTRUCTION EQUIPMENT**



**MARINE PROPULSION UNITS,  
GENERATING SETS,  
AND WATER SYSTEMS**

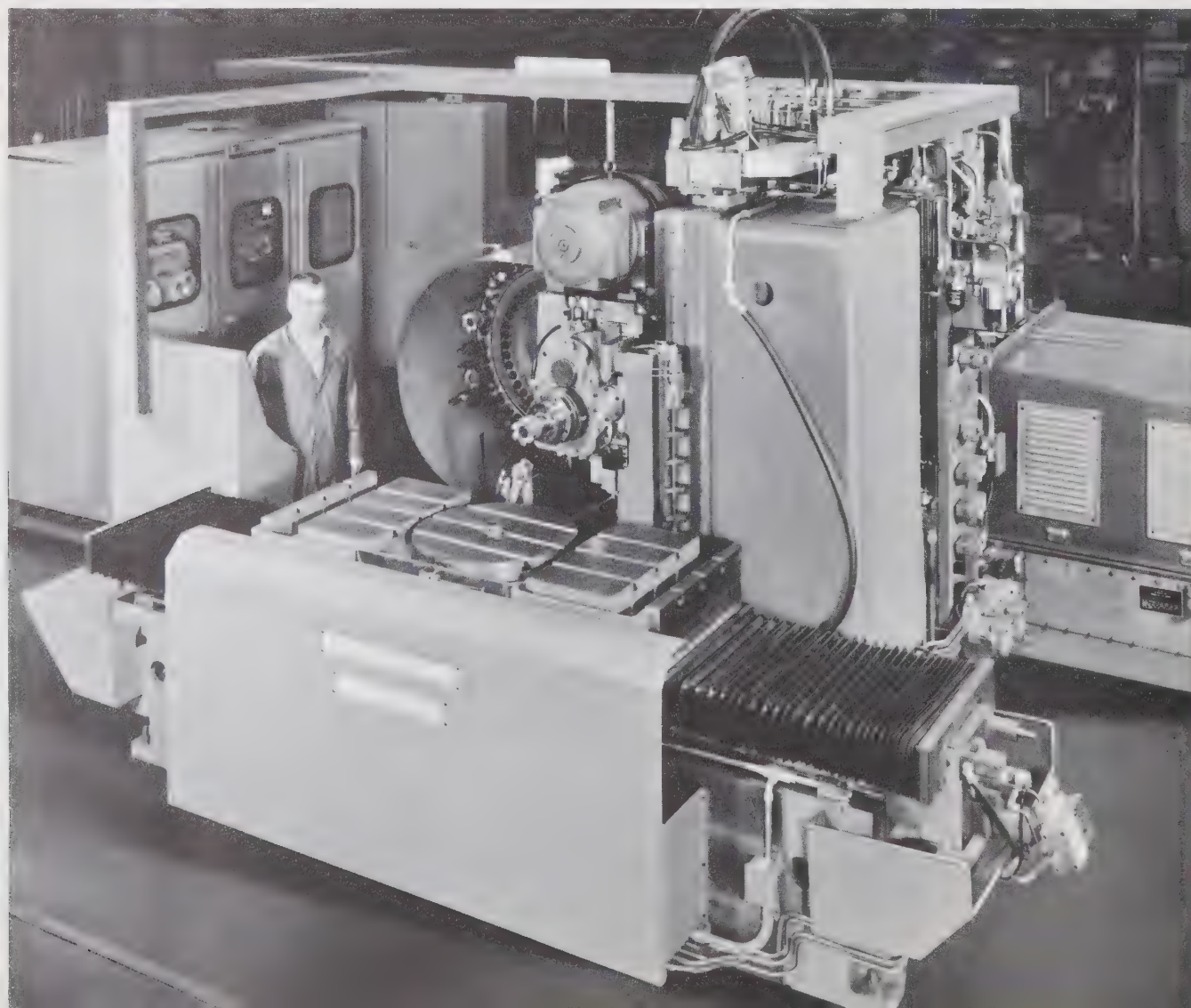






This American lathe, installed at Dominion Engineering Works Ltd., Montreal, is controlled by a tape prepared on a Friden Programmatic Flexowriter. It has been found that parts can be produced 4 times faster on this lathe than on a conventionally operated lathe.

This Sundstrand machining centre incorporating the functions of many machine tools is also automatically controlled by tape. It will perform automatically, boring, drilling, milling, reaming, tapping and contouring.

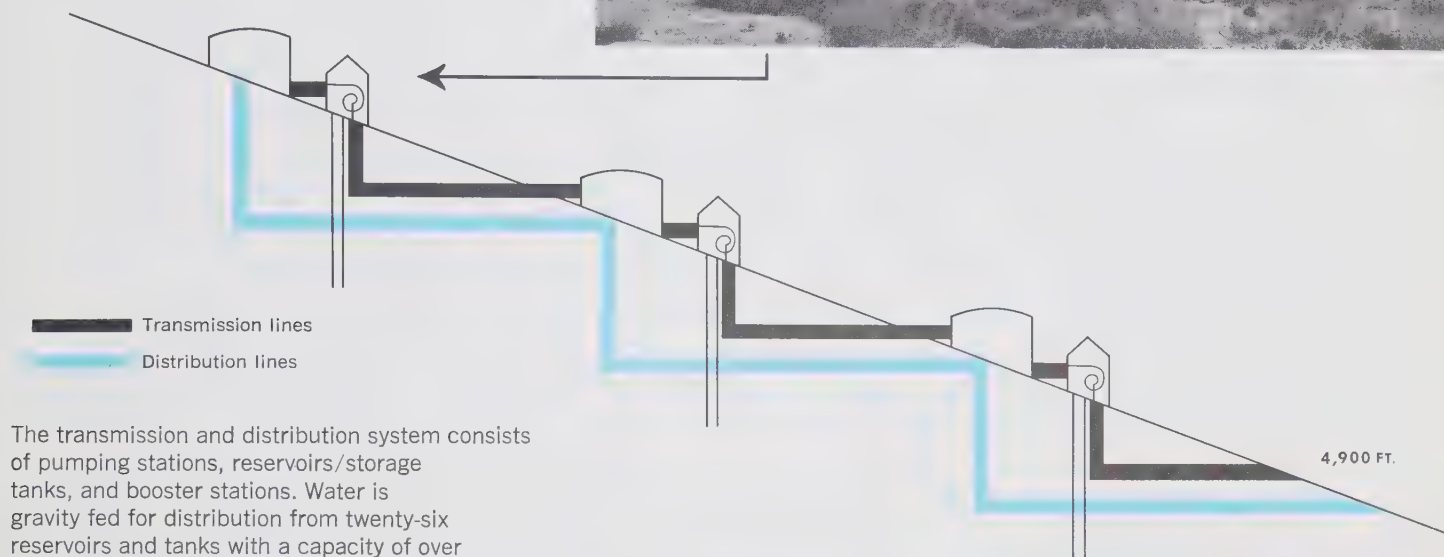




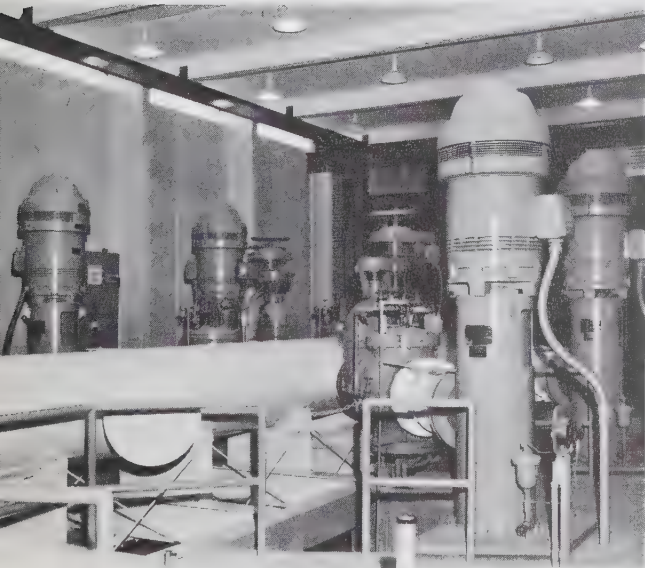
Graphically shown is a cross section of a city water system utilizing Johnston pumps. This particular system, which serves approximately 240,000 people, was conceived to solve the major logistics problem of an extreme terrain differential in high and low elevation. Fed entirely by wells, the system requires 177 pumps, one third of which are Johnston's. This is a typical example of how Johnston engineers help solve the complex problems of water distribution in a population-exploding world. Photo at right is of a typical system reservoir.



7,000 FT.



The transmission and distribution system consists of pumping stations, reservoirs/storage tanks, and booster stations. Water is gravity fed for distribution from twenty-six reservoirs and tanks with a capacity of over 100 million gallons.

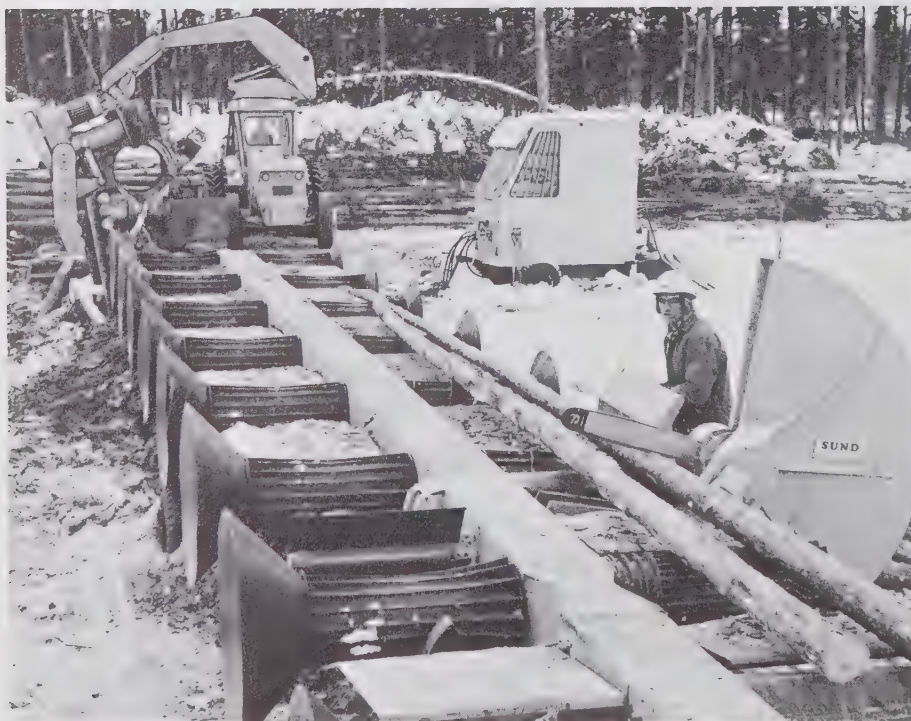
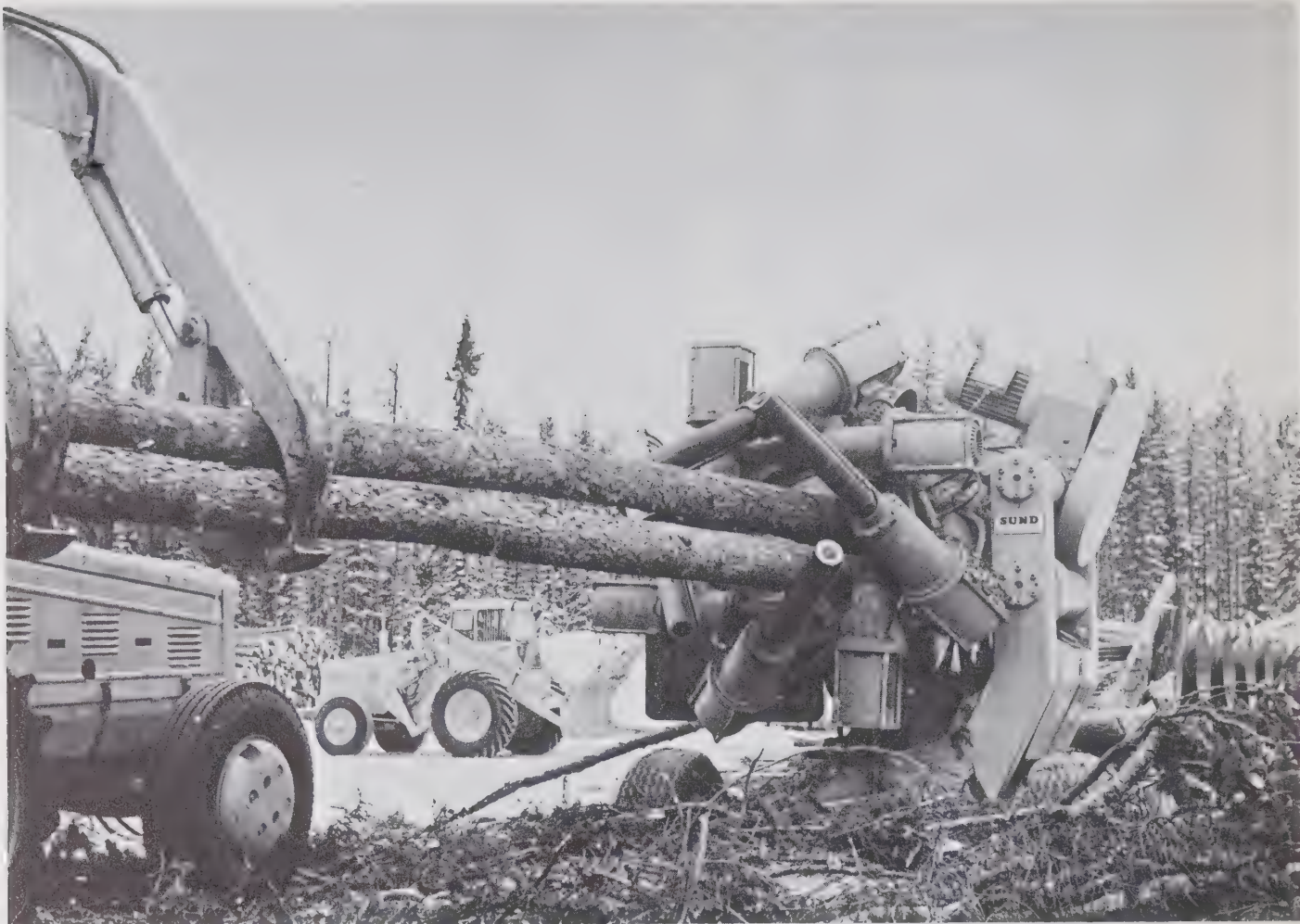


The city's 16 pressure zones require numerous pumping stations such as the one depicted. Most stations utilize vertical turbine pumps. The pressure zones are served by wells ranging in depth from 300 to 1,000 feet and in capacity from 500 to 3,000 gallons per minute.



This Johnston deep-well pump is typical in this system which uses 177 pumps, consisting of 82 deep-well and 95 boosters. Johnston units vary in size, with the largest a 400-hp unit, pumping at the rate of 1,400 gallons per minute from one elevation to another, amounting to 853 feet differential.







Sund Tree Processing System in operation in the La Tuque district of Quebec. This is a mobile system for processing trees at the cutting site and consists of a tree feeder, delimber, limb conveyor and slasher-sorter.

A Volvo front-end loader transports the pulp wood to waiting trucks.



This heavy duty Yale lift truck, using a special clamp, handles large cartons with ease in a retailer's warehouse.





This portable Axle Load Scale manufactured by the Canadian Scale Division is of a special design for the Province of New Brunswick. The scale is moved into specially prepared pits and can be handled by a single operator.



A typical Motor Truck Scale installation. Three scales in one provide axle weights and total gross weight simultaneously.



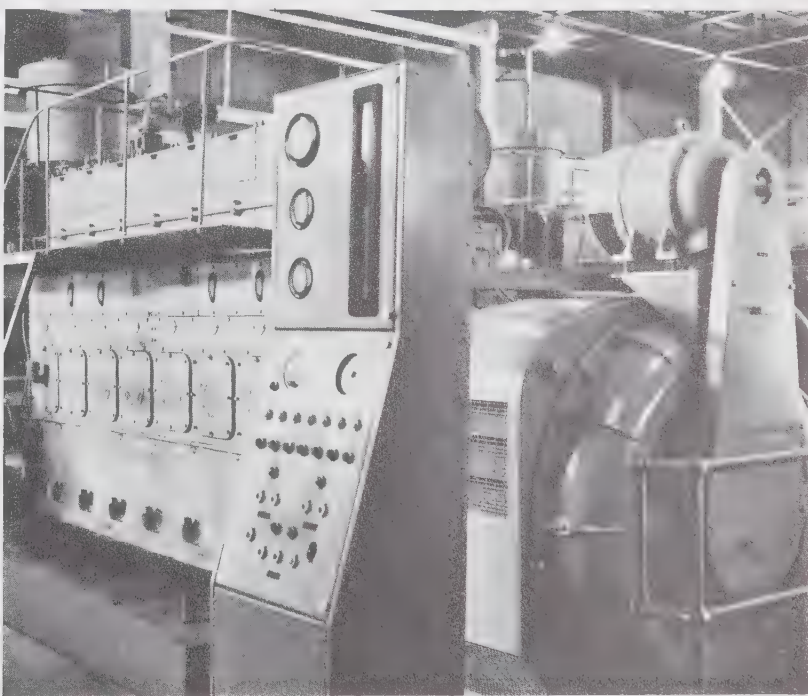
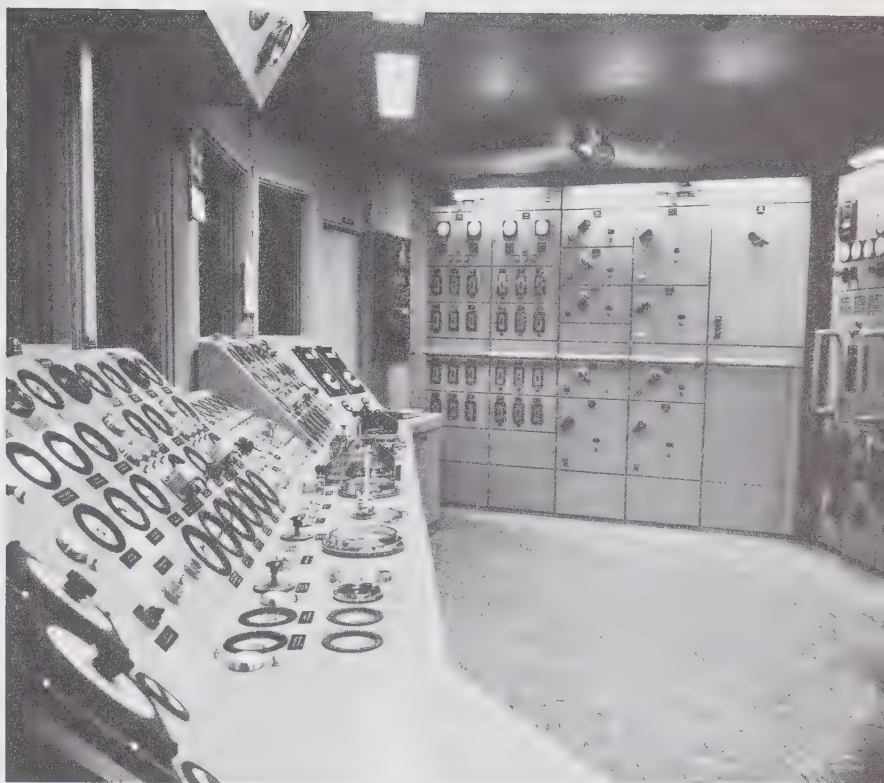
A portion of the production line at Howe Richardson's Clifton plant where bagging scales are inspected.





M/V 'Roy A. Jodrey', built by Canadian Shipbuilding and Engineering Ltd., for Algoma Central and Hudson Bay Railway Company is powered by four 10 cylinder diesel engines.

Complete control of the propulsion machinery is centered in the control room on the bridge where all operations can be performed without reference to the engine room.



Three 700 kilowatt high voltage diesel electric generating sets supply power for the Long Range Aid to Navigation station operated by the Canadian Government Department of Transport at Cape Race, Newfoundland. These units are the only source of power for the transmission, lighting and heating requirements of this station.



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